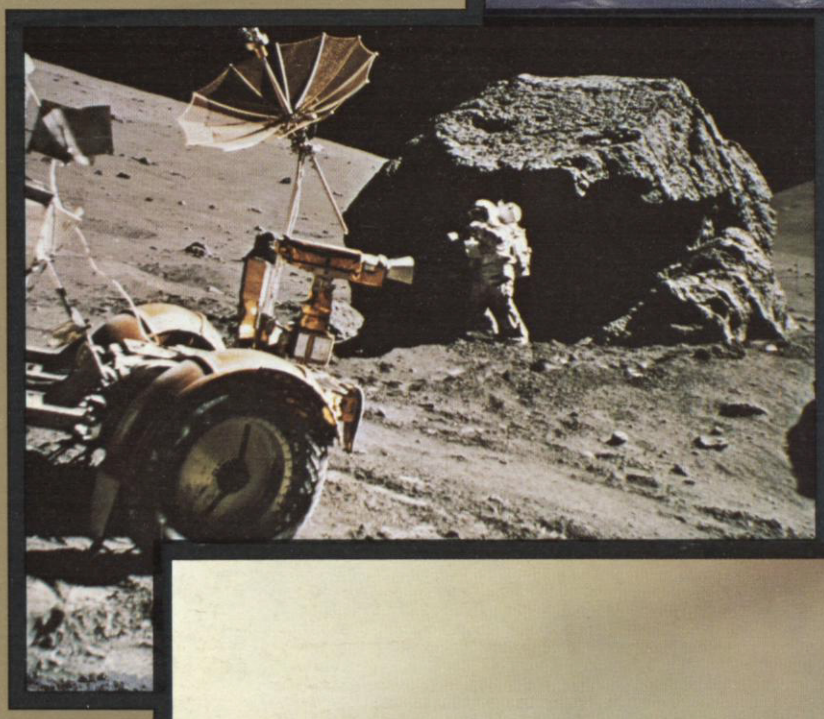

Annual Report 1972

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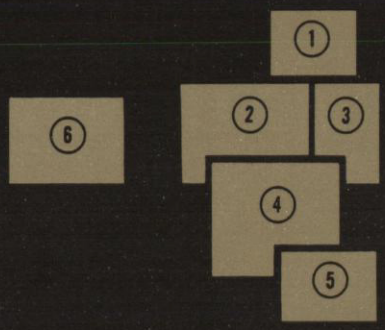
(2): Lunar Rover symbolizes the contribution of Boeing people and products to success of Apollo

(3): Every Minuteman delivery has been on or ahead of schedule since first delivery 10 years ago

(4): Flying more than million revenue hours, 747 fleet has carried nearly 35 million passengers

(5): Mockup of first-class lounge concept reflects continual experimentation with 747 interiors

Back cover (6): Orders for 727s have passed the 1,000 mark, a record number for commercial jet aircraft



Annual meeting of Boeing stockholders will be held at the offices of the Company, Seattle, Washington on April 30, 1973. Formal notice of the meeting, proxy statement and form of proxy will be sent to stockholders about April 1.

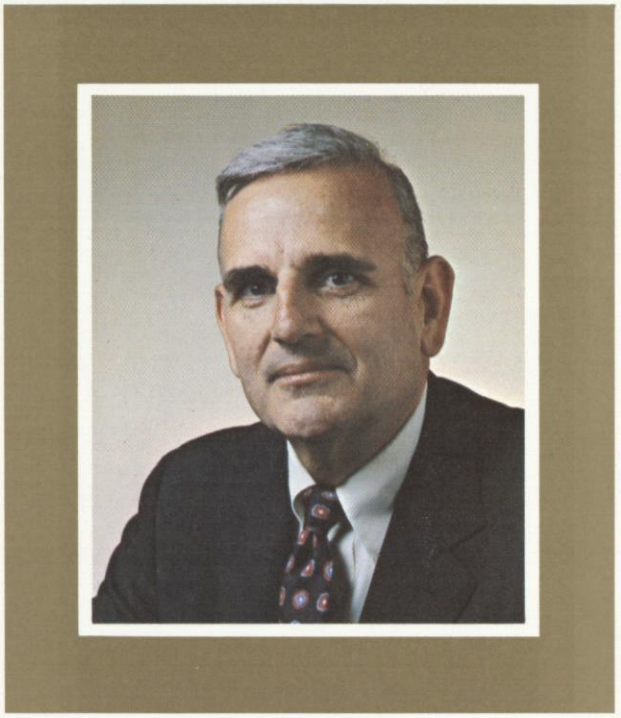
■ Airborne Warning and Control System aircraft is readily identified by 30-foot-diameter radome as it undergoes simulated refueling exercise; fuel transfer boom of KC-135 is in upper corner

■ Mr. and Mrs. William M. Allen on reviewing stand as quartet of jetliners built under his leadership salutes his long, eventful career (l to r) 747, 737, 727 and 707 (720)

HIGHLIGHTS

	1972	*1971*
Sales	$2,369,580,000	$3,039,816,000
Earnings before extraordinary credit	$ 30,405,000	$ 22,430,000
Extraordinary credit		$ 19,780,000
Net earnings	$ 30,405,000	$ 42,210,000
Percent earnings to sales (1971 before extraordinary credit)	1.3%	0.7%
Earnings per average share outstanding:		
Before extraordinary credit	$1.40	$1.04
Extraordinary credit		$ .91
Net earnings	$1.40	$1.95
Dividends paid	$ 8,674,000	$ 8,673,000
Per share	$ .40	$ .40
Shares outstanding at year end	21,688,888	21,683,102
Stockholders' equity per share	$39.87	$38.88
Salaries and wages	$ 783,531,000	$ 711,031,000
Average number of employees	58,600	56,300
Depreciation	$ 75,920,000	$ 89,609,000
Backlog at year end	$2,830,854,000	$2,200,672,000

MESSAGE TO STOCKHOLDERS



■ T. A. Wilson
Chairman of the Board and
Chief Executive Officer

In 1972 the company recorded net earnings of $30.4 million on sales of $2.4 billion. The earnings amounted to $1.40 per share or 1.3 per cent of sales. Comparable figures for 1971, excluding an extraordinary credit resulting from cancellation of the supersonic transport program, were earnings of $22.4 million, $1.04 per share and 0.7 per cent of sales, on total sales of $3.04 billion. With the extraordinary credit included, 1971 net earnings were $42.2 million or $1.95 per share.

The company continued its practice of charging against earnings on an incurred basis research, developmental, administrative and other general expenses applicable to government straight fixed-price contracts and commercial programs. Basic engineering and planning costs applicable to commercial jet transport operations are also charged directly to earnings.

Orders for 170 jetliners were received in 1972, nearly double the 89 contracted for in 1971. The outstanding aircraft was the 727 trijet which sold impressively both in the United States and abroad and captured major market segments which industry observers had all but conceded to the newer generation airbuses. In retrospect, it is apparent that our continuing program to improve the 727's performance and passenger appeal has made it competitively superior to any other airplane type over a broad spectrum of airline routes and requirements. We are in the process of doubling our 727 production rate to satisfy the demand.

A highlight of the year was the order for ten 707s placed by the People's Republic of China. The economic advantages of the 707 still make it the best airline "buy" for many of the world's long range but less heavily traveled routes.

With new orders in 1972 for 14 airplanes, the 737 continued as a highly competitive choice for airlines seeking small-capacity jet transports. The 737 has established itself as the sturdy, day-in day-out workhorse for the regional routes of developing nations.

Most 707 and 737 orders, however, were for quantities of one or two, totaling 32 in 1972. We expect this modest but satisfactory level of 707 and 737 business to continue for a number of years because both airplanes are precisely fitted to airline requirements and, in some cases, to current U.S. and foreign military needs.

During 1972 new orders for seventeen 747s were announced by eight airlines. Four of these airlines were new customers for the superjet. Included in 1972 were initial orders for the 747SR, a short range, high seating capacity model for Japan Air Lines, and the first 747C convertible model for World Airways.

■ 747SR (Short Range), similar in size and appearance to basic 747, contains structural modifications to allow for frequent takeoffs and landings. 747SR begins service in Japan in 1974

The long term 747 market base has been strengthened by the sale of these new models.

The 747SR also serves to illustrate the contributions our products are making in areas of great national importance, such as improving the environment and coping with fuel shortages. The 747SR has the lowest operating cost per seat of any aircraft; similarly, in comparison with all commercial airplanes ever made, it has the lowest fuel consumption per seat-mile and the lowest total per seat noise exposure for airport communities.

The in-service performance of the 747 in 1972 was outstanding and is considered to be a major stimulant to future sales. In addition, several product improvement efforts are under way which are designed to add flexibility to the 747.

The biggest single influence on the company's outlook in the next several years continues to be the 747. Orders for this airplane have marked time in spite of the fact that the 747 has performed increasingly well during the past year and demonstrated superior passenger acceptance. How long the relatively low level of orders will continue is not known. However, all studies we have developed or had access to indicate that airline travel is increasing at a rate which should demand substantial additional 747 purchases. Orders on hand will stabilize the program at its present production levels through 1973 and into 1974.

We are studying new airplane types employing advanced technology which will make air transportation more efficient and more attractive. We have established a design investigation effort, designated the 7X7, to explore a possible new family of Boeing airplanes. Discussions of our design concepts are under way with a number of major carriers.

One of the most satisfying achievements of the year was the company's success in winning new military business and in performing solidly on military and space commitments already in hand. Although details of these activities are noted elsewhere in this report, their cumulative significance deserves attention.

Our proposals were successful in four major military competitions. In two of them we won contracts to develop a new Army helicopter and an Air Force cargo airplane for "fly-offs" against competitive craft. The other contracts were to design and develop a decoy missile and to supply the avionics package for the B-1 bomber. With work in progress on such programs as Minuteman, the Short Range Attack Missile, the Airborne Warning and Control System airplane, the B-52/KC-135 modification programs, hydrofoil boats and helicopters, it is apparent that the company's military base is broader and more diverse than at any time in Boeing's history. While all of these programs are subject to governmental review, it is noteworthy that work on each is proceeding on schedule and under satisfactory cost control.

Once again we were proud of the performance of Boeing people and products assigned to space projects, as the S-1C Saturn booster and the Lunar Roving Vehicle helped bring the manned lunar portion of the space program to a successful and productive conclusion. Our space efforts include the Mariner Venus/Mercury '73, Burner II and Skylab programs. We continue to seek space assignments, principally the external fuel tanks for the Space Shuttle program.

Our diversification program outside the aerospace field has made good progress. We have had successful beginnings in both surface and hydrofoil transportation, computer services, support services, electronic products, desalination, and several community development activities. The combination of all of our "non-traditional" diversification efforts represents only a modest portion of total company business, but as it grows it should help to reduce our susceptibility to fluctuations in our traditional business.

Several changes occurred in the management of the company. The retirement of William M. Allen as board chairman and my succession to that post occurred at the end of September. Mr. Allen's association with the company had begun some 47 years earlier when he became its legal counsel. As president, chief executive officer and chairman of the board, he guided the company through many difficult periods. He expanded its activities to include missile and space programs, and he directed Boeing to preeminence in the field of commercial aircraft. In a very real sense, the company reflects the integrity of the man himself. To insure that Mr. Allen's counsel will not be lost to "his" company, he has been named chairman emeritus.

Malcolm T. Stamper was elected to the presidency and to membership on the board. Mr. Stamper had been senior vice president in charge of company operations prior to his new assignment.

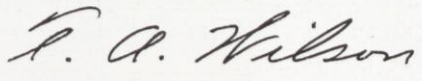
Charles M. Pigott, president of PACCAR Inc, also was elected to membership on the board. His experience in the field of building and marketing heavy-duty trucks and railroad cars will prove valuable to the company.

Late in the year three of the corporation's operating organizations were designated as companies and the principal executive of each was assigned the title of president. Thus, the corporate structure now includes, in addition to other entities, the Boeing Commercial Airplane Company, the Boeing Aerospace Company, and the Boeing Vertol Company.

The change is a recognition of the size and self-sufficiency achieved by these organizations and is an indication of their potential for growth. While the new alignment is expected to promote a greater degree of autonomy for these organizations, and to enhance their stature in the marketplace, they will operate as integral parts of the corporation, reporting to Mr. Stamper. The change in designation does not affect the corporate or legal structure of The Boeing Company.

The increased tempo of company activities has halted the downward trend in manpower; in fact, the payroll has risen to 66,000 since the low point of 53,300 recorded in October 1971.

In summary, 1972 was a year of substantial recovery for the company. We not only acquired more new commercial and military business across a broader base than had been anticipated, but we also operated with greater productivity in almost every major program area. We believe that the momentum we have established should continue through 1973 and beyond.

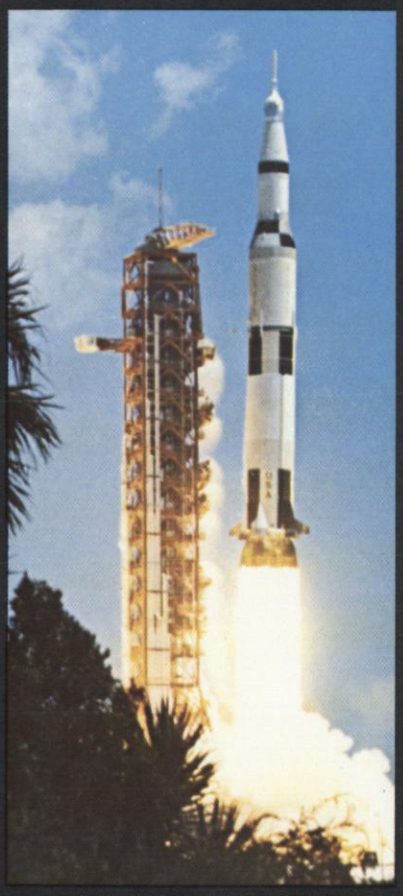


Chairman of the Board
and Chief Executive Officer

February 26, 1973

Malcolm T. Stamper
President
The Boeing Company

OPERATIONS REVIEW



BOEING AEROSPACE COMPANY

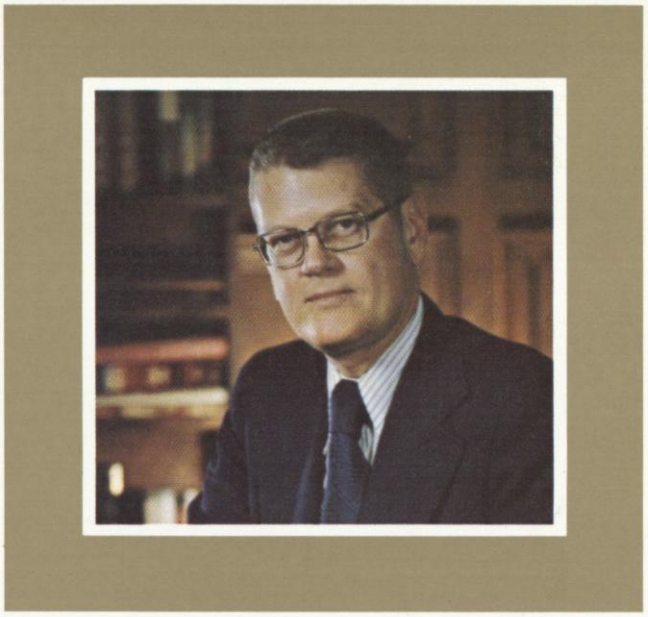
BOEING COMPUTER SERVICES, INC.

BOEING VERTOL COMPANY

BOEING COMMERCIAL AIRPLANE COMPANY

WICHITA DIVISION

BOEING AEROSPACE COMPANY



■ O. C. Boileau
President
Boeing Aerospace Company

The activities of the Boeing Aerospace Company include many products and services, both traditional and non-traditional, which compete in governmental and civilian markets.

The vitality of the company is indicated by the fact that in 1972 it was able to strengthen its position in traditional fields with several significant new business wins and, at the same time, to demonstrate its ability to acquire business in areas where the company is a relative newcomer.

In April, the company won an important share of the U.S. Air Force B-1 bomber program with its selection as B-1 avionics subsystems interface contractor. The company will develop, procure and integrate the electronic subsystems associated with navigation and weapons delivery of the new supersonic strategic bomber. Current B-1 development work is pointing towards flight testing beginning in 1974. The capability of performing the complex job of avionics integration was developed by the company over the past decade in its work with the B-52, Minuteman and Short Range Attack Missile (SRAM) programs.

The company was one of two contractors selected in November to build two prototypes of the U.S. Air Force's AMST Transport. The aircraft is a new-technology advanced medium short-takeoff-and-landing (STOL) transport that may replace the C-130 Hercules, currently the Air Force's medium transport workhorse. First flight of the prototypes will take place in 1975.

In the company's STOL design the airplane's two engines exhaust over the top of the wings and flaps in such a way that extra lift is produced. This is an advanced technique called upper surface blowing.

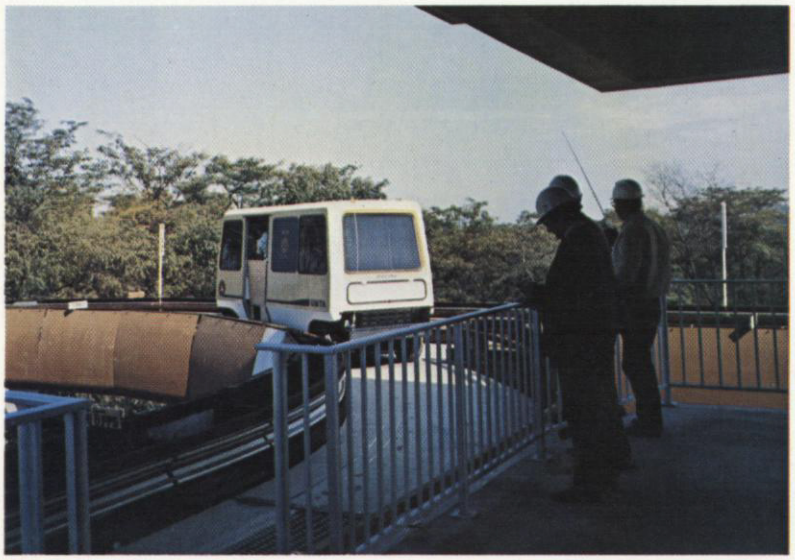
An Air Force assignment received during the year involving the Subsonic Cruise Armed Decoy (SCAD) could yield significant business in future years. SCAD is being developed to improve the B-52 bomber's ability to penetrate enemy defenses. The company was selected to develop SCAD's airframe and antenna systems, to assemble the major subsystems to form the air vehicle, and to integrate SCAD into the SRAM/B-52 weapon system. A number of missiles will be fabricated and flown to determine production feasibility.

Late in 1972 the company rolled out its number one Compass Cope, a remotely piloted vehicle (RPV). The twin-tail, single-engine aircraft was designed and built under a contract with the Air Force. The high-altitude surveillance RPV, which is controlled by a pilot from the ground, will be able to fly much longer unrefueled missions than any aircraft now in the Air Force inventory. Work on the project began in July, 1971. Testing will take place at Edwards Air Force Base, in southern California. Two test aircraft comprise the present program.

In on-going traditional business, 1972 was a milestone year for the U.S. Air Force's Airborne Warning and Control System (AWACS) for which the company is prime contractor. The year saw completion of two and one-half years of work leading to the verification and selection of an advanced surveillance radar capable of detecting and tracking airborne targets at any altitude over any terrain. The company completed this phase ahead of schedule and below budget and received a $900,000 incentive award from the Air Force for outstanding performance. In early 1973 the Department of Defense authorized the program to proceed into the next phase—full-scale development.

December 11, 1972 marked the 10th anniversary of the delivery of the first Minuteman intercontinental ballistic missiles to the Air Force. During the year Boeing continued on-schedule force improvement activities involving both Minuteman II and III missiles. The company has met or bettered every Minuteman missile delivery schedule during the past 10 years.

The SRAM program passed two important milestones during 1972. In the spring the first production missile was delivered to the Air Force, and in late



■ Top: First personal rapid transit system, installed at Morgantown, West Virginia, offers promise of solving broad variety of people-moving problems

summer the supersonic air-to-ground missile system was declared operational at its first Strategic Air Command base. SRAM is a strategic weapon for the B-52, FB-111 and the B-1 bomber now under development. Production and SAC wing activation are continuing on or ahead of schedule.

1972 saw the conclusion of the manned lunar phase of the Apollo program. In looking back at the size and scope of the job undertaken by NASA and its thousands of contractors, one can only marvel at the level of performance of all the participants. The company is proud of the role it played.

During the year Boeing-built Apollo hardware completed a perfect performance record. When two S-1C stages of the Saturn V launch vehicle rocketed the Apollo 16 and 17 astronaut teams to the moon in April and December, the S-1C completed a record of 12 successful launches in 12 attempts for Apollo. Lunar Roving Vehicles extended the Apollo lunar exploration from a matter of yards to miles.

The first of two Mariner Venus/Mercury '73 spacecraft was taking form at year's end in a new ultra-clean spacecraft manufacturing facility at the Boeing Space Center near Kent, Washington. This craft will be placed under test in early 1973 to be followed by a duplicate flight vehicle. The National Aeronautics and Space Administration program is being conducted under the direction of the California Institute of Technology's Jet Propulsion Laboratory. Program schedule calls for the spacecraft to be launched on its flight to the two planets in the last quarter of 1973. Throughout 1972 the program remained on schedule and below budget.

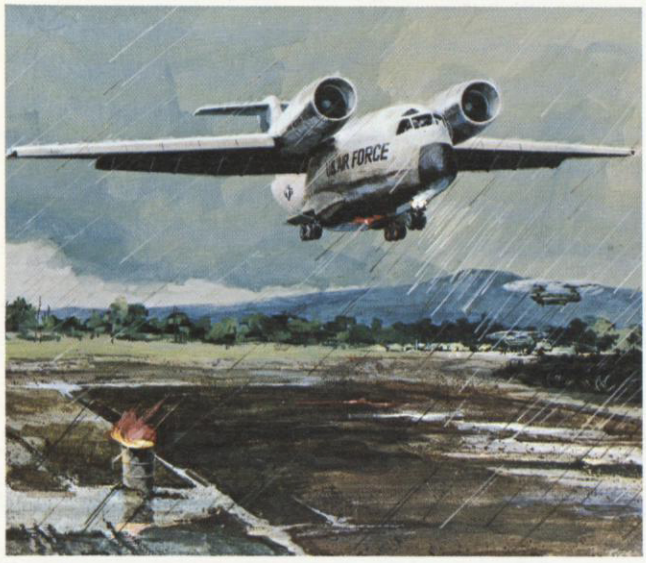
The Naval Systems Division passed two important milestones in 1972: the start of production of the Jetfoil, a new passenger-carrying hydrofoil for commercial customers, and the completion of preliminary design of a missile-carrying hydrofoil patrol craft for the U.S. and NATO navies. A U.S. Navy contract authorization is expected in 1973 for construction of two of the patrol craft for test and evaluation.

At Alinavi, S.p.A. the company's affiliate in Italy, work on the "Swordfish," a hydrofoil gunboat being constructed for the Italian navy, is on schedule. Launch of the "Swordfish" is scheduled for this spring.

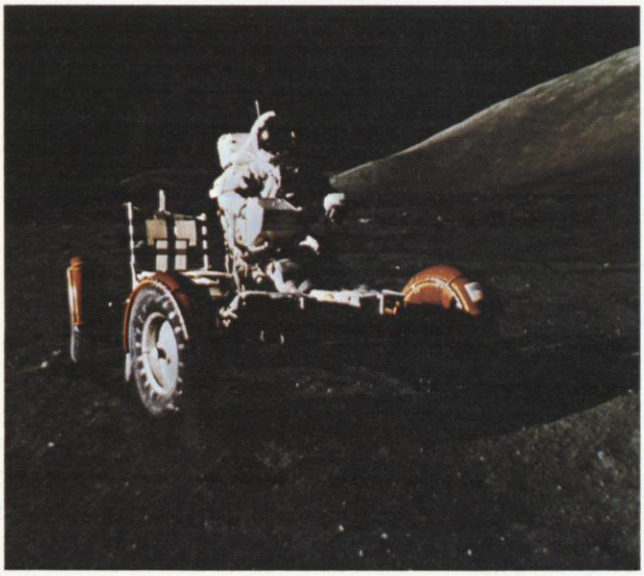
The nation's first personal rapid transit system, a fully automated form of urban transportation, was dedicated at Morgantown, West Virginia in October. As system manager of this U.S. Department of Transportation demonstration project, the company is responsible for design, installation and test of the total system.

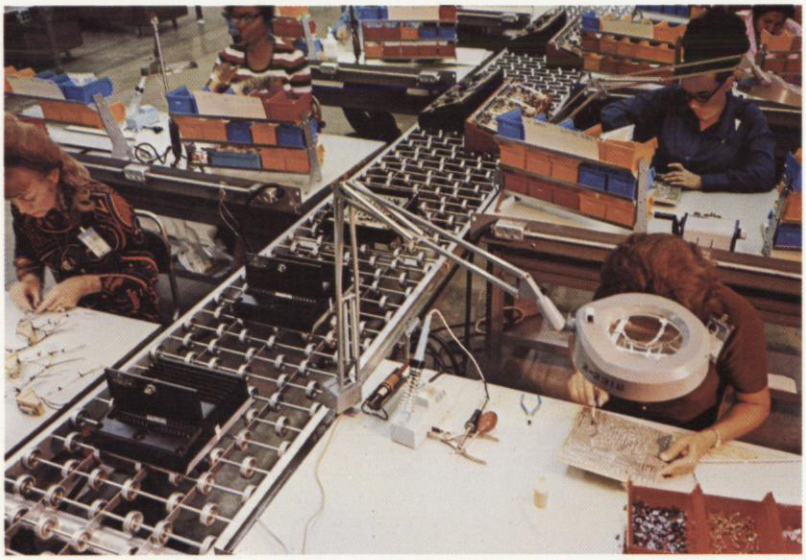
■ Center: Artist's conception of Jetfoil, new 50-mile-per-hour commercial hydrofoil, now under construction

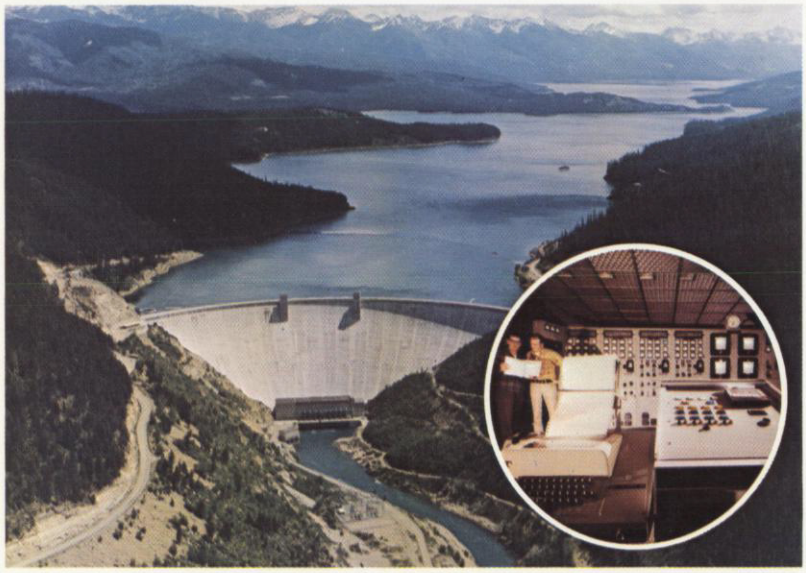
■ Lower: Shape of the future: Pattern made by sprinklers at Boardman project in Oregon, where 3300 acres of a projected 50,000 are now under irrigation



- In company's design for advanced medium short-takeoff-and-landing transport (AMST), engines exhaust over wings and flaps to increase lift; two prototypes are to be built
- B-52 at Loring Air Force Base, Maine, prepares to take off with full load of 20 SRAMs; Loring was first base to go operational
- Minuteman missiles, standing ready for launch in underground silos from Missouri to Montana, have served as principal deterrent to nuclear aggression for 10 years
- Lunar Roving vehicle greatly increased range and mobility of astronauts on lunar missions







■ Top: Company 747 joins B-52 in simulated refueling, part of tanker feasibility study for Air Force

Because of the convenience and flexibility of the system, it appears to offer real promise of solving people-moving problems in a broad variety of situations and locales. A number of opportunities in this field are being vigorously pursued. In November, for example, an agreement was signed with Kobe Steel, Ltd. under which Kobe is seeking to market the system in Japan.

The year also witnessed completion of the first phase of the Boardman Development Project in northeastern Oregon, where a long-range program to convert 100,000 acres of leased desert to productive use is in progress.

An initial 3,300 acres of crop land was placed under irrigation and eventually some 50,000 acres are planned to be transformed into crop and grazing land.

The company served as prototype site developer in two Department of Housing and Urban Development "Operation Breakthrough" projects. One of the Seattle area sites which was developed and managed by Boeing was completed and turned over to non-profit management. All 58 units are rented. Construction at the second, a suburban site, was nearly finished and a number of the units were sold.

In 1972 Resources Conservation Co.'s first desalination plant began producing fresh water from sea water for a resort in the U.S. Virgin Islands. The organization will deliver the water under an eight-year contract. Resources Conservation is a joint venture formed in 1971 between affiliates of Reading & Bates Offshore Drilling Company, El Paso Natural Gas Company and Boeing.

During the year Boeing Electronics announced a new product—a low-cost microwave landing aid system named LAS. First sale of the units has been made to Wien Consolidated Airlines, Inc. of Alaska. The compact terminal navigation aid is expected to have world-wide application.

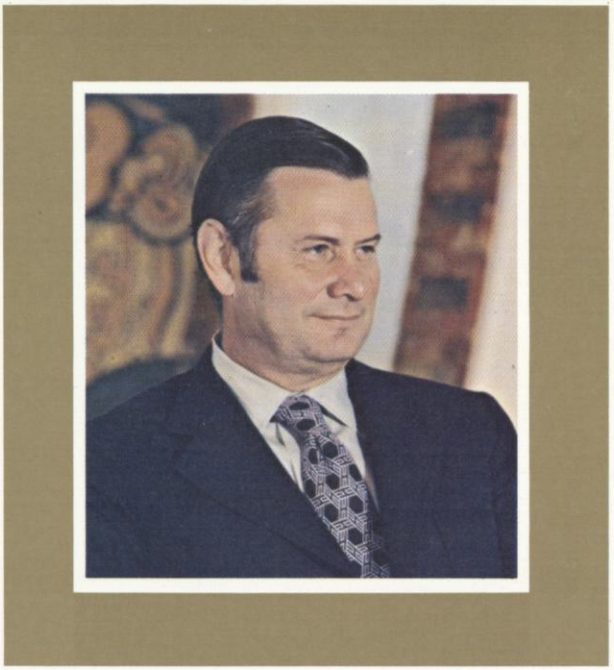
Sales of the Boeing Scrambler voice privacy unit continued. Using the Scrambler, Abilene, Texas has become the first city in the U.S. to provide security for all police radio communications.

The company installed its first automatic general controller (AGC) at Hungry Horse Dam in Montana and a kilowatt-hour data acquisition system at Bonneville Power Administration's new control center at Vancouver, Washington. The AGC is the nation's first closed-loop digital control system for power generation and one of several products considered for marketing nationwide to the electric utility industry.

■ Center: The Boeing Scrambler, shown under production, is a voice privacy unit designed to prevent eavesdropping on police radio communications

■ Lower: One of the country's first automatic digital control systems for electrical generators has been installed at Hungry Horse dam in Montana

BOEING COMMERCIAL AIRPLANE COMPANY



■ E. H. Boullioun
President
Boeing Commercial Airplane Company

Last year was one of major accomplishment for the Boeing Commercial Airplane Company, highlighted by the largest number of airplane orders in any year since 1967.

Market trends which were beginning to emerge at the end of 1971 gained momentum during 1972. There was a pronounced upswing in U.S. passenger traffic and a marked improvement in the profits of major customers when compared with the depressed figures of the two previous years. The attention given by the company in those years to enhancing the performance and capability of its products and to improving the efficiency of its production operation enabled it to compete effectively in 1972 for the new business generated by the economic turnaround.

The scope of airline traffic growth in 1972 was illustrated by the North Atlantic market, with an approximate 22 per cent increase over 1971. For the United States airlines, the domestic market increased by approximately 12 per cent. Importantly, the year's growth brought travel demand more into balance with U.S. airline capacity. Although the 22 per cent North Atlantic traffic increase is a positive factor, its impact on future sales is constrained somewhat by the increased use of lower fares with a consequent diminution of airline profits in this large market.

The potential for continued increase in air travel appears encouraging. The company's current forecast for airline traffic growth from now to 1980 projects an average annual growth of from 10 to 11 per cent. Although this is less than historical trends the projected growth in terms of added increments of traffic is great. The world-wide increase in disposable income, the increase in leisure time, new airline marketing and pricing concepts, and governmental pressures to encourage low-cost mass transportation are some of the factors which support the forecast for the remainder of this decade.

New orders for 170 aircraft were announced during the year, nearly double the number recorded in 1971. Included were: 121 Model 727s, eighteen 707s, seventeen 747s, and fourteen 737s. Of the 170 new orders, 84 were from U.S. airlines, 85 from foreign customers, and one from the U.S. Air Force, whereas in 1971 the preponderance of orders was from foreign customers. Orders during 1972 represented more than $1.5 billion of new business, well in excess of projections and nearly three times greater than in 1971.

In 1972 Boeing retained its traditional share of the world commercial jet transport market by receiving orders for more than half of all the airplanes purchased. This market penetration continues to demonstrate the competitiveness of its products, the ever-increasing customer base built over the years, and its aggressive world-wide sales and marketing efforts.

The 727, already the world's most popular jetliner, gained even greater acceptance. In September, orders for the 727 passed the 1,000-mark, the first time a commercial jet aircraft has sold in this quantity.

Several reasons account for the 727's success. The fact that the airplane has lower operating costs than older airplanes of essentially the same size led customers to select the airplane for modernizing and standardizing their fleets. Another important factor is the growing number of non-stop, city-to-city markets in the United States and in Europe. The 727 is correctly sized to serve this growing market and is ideal for the operation of convenient flight frequencies that are not economical with the larger airbuses.

Recent 727 improvements — centered around technical updating, a range increase of over 50 per cent, altitude performance increases, higher thrust engines, changes to reduce community noise, and the addition of modern "wide-body-look" interiors— have enhanced the airplane's marketability. The 727 is certified to comply with Federal Air Regulations noise standards.

A significant order was received from Sterling Airways of Copenhagen, one of the world's largest charter airlines, for 727s with a gross weight of 208,000 pounds. The increased performance of the airplane, which will be delivered in late 1973, will enable it to carry 189 tour passengers for distances in excess of 2,500 miles.

■ Accelerated tempo of 727 production line reflects increased acceptance of trijet, already world's most popular airplane

■ East meets West at Everett: 747s being prepared for delivery to Japan Air Lines, BOAC and Air France underscore the major role of commercial jet aircraft in the international market

New orders for seventeen 747s were placed by eight airlines. Four airlines—World Airways, Singapore Air Lines, CP Air (Canadian Pacific) and Wardair-Canada—bought 747s for the first time, increasing the customer base to 33 carriers. The order by World was the first for the 747C convertible model. This new model, which can transport passengers, cargo, or a combination of both, will be delivered in early 1973.

Another significant order was received from Japan Air Lines for four 747SR (short range) transports which will begin domestic service within Japan in 1974. The 747SR is the fifth production model of the 747 program. It is similar in size and appearance to the basic 747 but will contain structural modifications to allow for frequent takeoffs and landings. The company believes there is a substantial market for the Short-Range version of the 747 to meet high-density market requirements such as those that exist within Japan.

Several product improvement efforts are under way on the 747 program. Two of these involve more powerful engines. Boeing and General Electric Company have signed an agreement to develop and flight test the GE CF6 engine on the 747. Flight testing of the GE engine will begin in 1973. Under another agreement, the Pratt and Whitney Division of United Aircraft Corporation will develop an advanced model of the JT9D, designated the JT9D-70. Both engines are being discussed with prospective customers for deliveries in 1975.

The JT9D-7 engine now used on the 747 achieved a remarkable record for reliability during the year. The JT9D-7 engine is installed on all new 747s, and many airlines are incorporating its features in engines on early 747s.

Use of the forward lower cargo hold as a lounge or for other passenger facilities has been discussed with the airlines. Another new development is a large cargo door in the fuselage aft of the wing. One airline is scheduled to modify its airplanes with the side door, and others are reviewing this added cargo capability. All these product improvements are designed to add flexibility to the 747, thereby increasing its marketability.

In its third year of commercial operation, the 747 fleet performance was impressive. The fleet has flown more than one million revenue hours and carried nearly 35 million passengers. With 1972's positive traffic growth, the 747 is being confirmed as correctly sized for the 1970s and beyond. Its capacity was highly utilized during the summer season. For instance, a survey indicated that 50 per cent of the 747 flights over the Atlantic and Pacific last July carried more than 250 passengers.

In the spring of 1972, the first 747F freighter was put into service by Lufthansa German Airlines. More than 30,000 tons of freight have been flown.

The order for ten 707 Intercontinental jetliners from the People's Republic of China gained worldwide attention in 1972. Initial deliveries will begin during the fall of 1973. The Chinese have indicated their intentions to expand their international and domestic air transportation system, and the company looks forward to an additional market for Boeing jetliner equipment in China.

Continued production is envisioned for the 707 program. Major opportunities exist for various military applications. Potential outlets include a Canadian requirement for a long-range patrol aircraft, and the production contract on the AWACS, a major Boeing Aerospace Company program. Work toward 707 involvement in long range patrol and anti-submarine missions, including flight tests of advanced surveillance systems on a 707 test airplane, is proceeding. 707 hose-drogue tankers achieved operational status in Canadian armed services in 1972, and 707 boom tankers are currently under construction for another nation. The combination of successful military sales programs, a modest quantity of commercial orders, and planned product improvements insures a future for the company's most mature aircraft.

In 1972, the two-engine 737 continued to be the clear technical and operating choice of airlines seeking smaller-capacity jet transports, and additional small quantity orders to fill such requirements can be expected. The 737 is already certificated for operation on gravel runways, and tests were conducted during the year in Canada, South America and on Norfolk Island near Australia which could lead to operation of the 737 on grass runways. Both are important factors for airlines outside the United States, enabling them to benefit from the use of jet equipment in advance of sophisticated runway development improvements. The 737 is also certified for compliance with Federal Air Regulations noise standards. Delivery of the first of nineteen T-43A Navigator Trainers (a military application of the 737) to the U.S. Air Force will begin in mid-1973, with first rollout scheduled for March.

Of importance to the entire Boeing Commercial Airplane Company product line is the increased and continuing emphasis on airplane noise reduction by nearly all agencies and branches of the U.S. Government. Fifty-one noise bills were introduced in the last session of Congress, and more can be expected. During the past eight years, the company has made considerable progress in noise research and acoustical

■ Model of 707-320 with markings of CAAC, national airline of People's Republic of China; ten-plane purchase attracted world-wide attention

■ "Quiet Nacelle," a research program in progress for several years at Wichita, will enable 707 engines to qualify under new noise standards

development. All models have benefited from this research. The first quieter 727-200 was delivered in May 1972. The low noise level of the 747 was a factor in its purchase by Japan Air Lines for Japanese domestic service. During 1972, a quiet nacelle was developed for the 737, flight tested and certificated by the FAA. Delivery of 737s with the new noise treatment will begin in second half 1973. Older 727s and 737s may be retrofitted with quiet nacelles. Certification of the 707 to FAA noise rules is expected before mid-1973, and kits for older airplanes will be offered for delivery by the end of 1974 or early 1975. The principal research which will enable 707 engines to qualify under the new noise standards has been under way at the Wichita Division for several years under the designation "Quiet Nacelle" program.

In 1972 commercial customer support representatives were provided in 92 cities in 40 countries on all continents supporting 142 commercial airlines who are flying over 2200 Boeing jet transports. In the support operation, in 1972, 2200 airline personnel completed the maintenance training school and 800 flight crew members completed ground and flight school training for a one year total of 3000 and a total for the last five years of almost 15,000. Many other services are offered including airline maintenance audits, evaluation of airport capability, repairing of damaged aircraft, spares supply, etc.

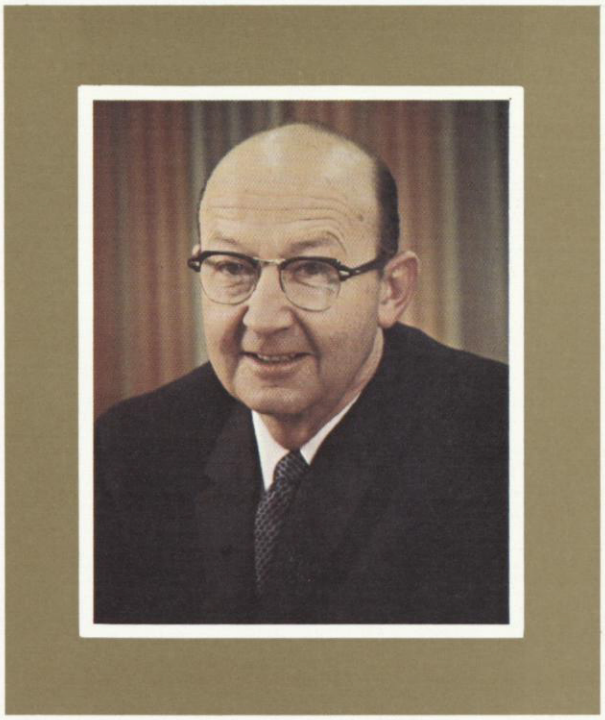
The company intends to remain a strong participant in future commercial airplane business. Toward that end, a new design program, the 7X7 project, was established in 1972 to determine the requirements for new commercial airplanes during the late 1970s and 1980s. The 7X7 program could define the next product offering based on a "family relationship" of transports ranging from short-haul to long-range applications. Noise reduction has been established as one of the major goals for the program. Participation with Aeritalia, an Italian company, is an integral part of the 7X7 program. The production timing of the 7X7 program is dependent on airline requirements.

As a result of the new business acquired in 1972, the company has on order a substantial backlog of aircraft for delivery during 1973 and through the first half of 1974. This will be reflected in an increase in the 727 production rate from five airplanes a month to eight a month by mid-1973. A major near-term goal is to reduce unit production costs while accomplishing the increase.

With its current product line and continued development efforts, it is felt the Boeing Commercial Airplane Company will be responsive to a large portion of the airline requirements expected during the next decade.

■ 737, already certified for gravel runways, has undergone tests which may lead to grass runway operations, permitting use of jet airplanes in areas not equipped with sophisticated runways

WICHITA DIVISION



■ Otis H. Smith
Vice President - General Manager
Wichita Division

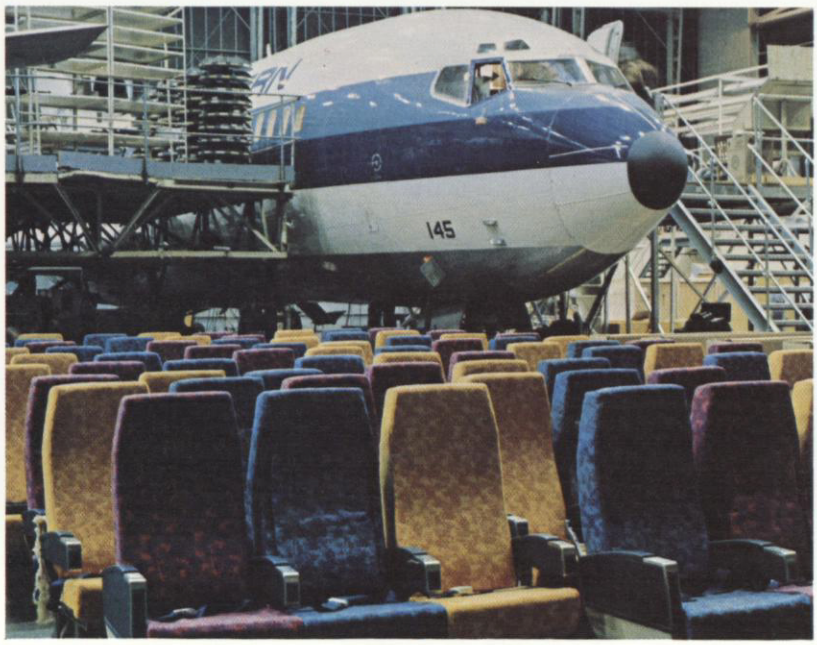
In 1972 the Wichita Division recorded significant gains in the acquisition of new business and an increase in sales volume. The division's achievements in established product lines and in technically related areas were also noteworthy.

The division maintained a continuing role in B-52 and KC-135 programs, and in the production of components and assemblies for 707, 727, 737 and 747 commercial jetliners. It also participated in the company's winning proposal on the B-1 avionics contract and will fulfill a significant role in the design and development of the avionics system.

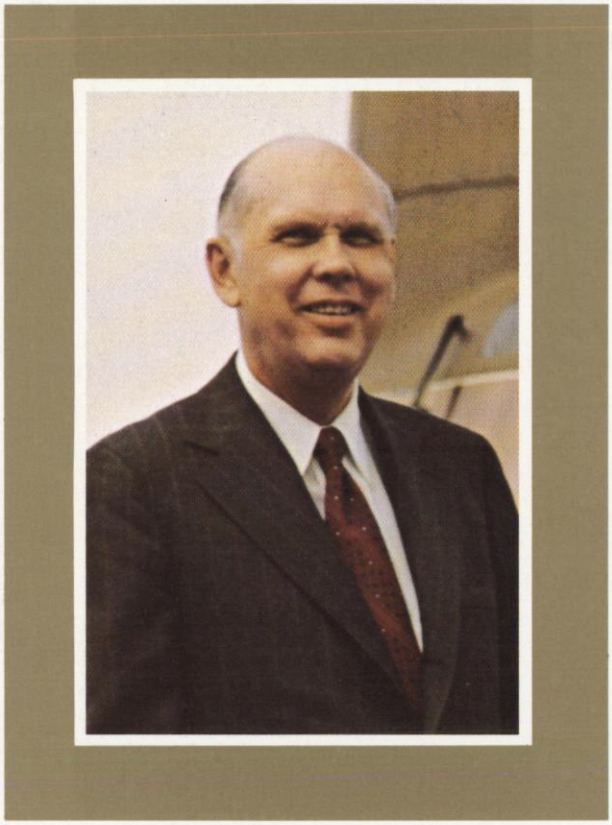
During 1972, modification of 67 commercial and 324 military airplanes was accomplished. On the military side, it was the second year of a major contract with the Air Force for KC-135 IRAN (Inspection and Repair as Necessary) involving 159 tankers. The largest single commercial modification program began in October when the first of 101 Eastern Airlines 727s was converted to the "wide-body look" with installation of new interiors. At year end, commercial modification programs under contract were up substantially from the prior year. The immediate future market potential for additional work is bright.

1972 was a year of intensive activity and significant progress in maintaining the B-52/KC-135 bomber/tanker fleet as an effective, viable weapon system. The Air Force exercised options to purchase additional Electro-Optical Viewing Systems for B-52s and retrofit kits so that the airplane can accommodate the Short Range Attack Missile. It also made its first purchase of Phase VI Electronic Counter-Measures for the B-52. Continued major B-52 and KC-135 related procurement is anticipated during 1973.

■ An Eastern Air Lines 727 receives the "wide-body look." The Eastern trijet fleet of 101 aircraft will be outfitted with the attractive interiors



■ The level of modification activity has increased and market potential is promising; both military and commercial aircraft are modified at Wichita



■ H. N. Stuverude
President
Boeing Vertol Company

BOEING VERTOL COMPANY

A series of significant business successes has aided Boeing Vertol in stabilizing its military production. A major objective was attained when it was selected as one of two winners in the U.S. Army Utility Tactical Transport Aircraft System (UTTAS) competition. Vertol will build three UTTAS prototypes for a fly-off competition during 1976. The winner is expected to receive the final production award in 1977 with first production deliveries planned for 1978.

Current plans call for a U.S. Army purchase of a substantial number of UTTAS helicopters through 1985.

The Army has also modified the existing Advanced Technology Components contract to provide for design, development and flight evaluation of a Heavy Lift Helicopter (HLH) prototype aircraft. The HLH prototype will have a payload capability of up to 30 tons and a gross weight more than 2½ times that of the company's current production helicopter, the CH-47C Chinook. The aircraft will provide flight demonstration of the integration and performance of the advanced technology components being developed under the existing contract. At year end, that program was proceeding on schedule.

The company acquired additional foreign military business, with Australia and Spain the latest countries to order Chinooks as their standard multipurpose medium-to-heavy-lift helicopter. Australia ordered 12 aircraft and Spain six. Six foreign countries—Italy, Iran, Australia, Spain, Thailand and the Republic of Vietnam—now have Chinooks in their helicopter inventory. In 1972, a total of fifteen CH-47 Chinooks was delivered to the U.S. Army and foreign customers.

In its diversification efforts, the company is continuing to meet its objectives. Four Boeing Boelkow BO-105 twin-engine helicopters are now flying in U.S.

■ U.S. Army CH-47C Executive Chinook is available for use by President of United States. Chinooks are the Army's medium lift transport helicopter and are in the inventory of six foreign nations

■ State-of-the-Art cars, world's most modern rail rapid transit cars, were unveiled at Department of Transportation test track; cars apply modern technology to problems of urban transit systems

commercial service. Reports from the three operators using the aircraft have been exceptionally favorable. The U.S. craft have accumulated over 2000 flying hours while the total for all BO-105s in world-wide service is over 16,000 hours. In the last quarter, Boeing Vertol obtained an additional 12 aircraft from Messerschmitt-Boelkow-Blohm to sell to North American commercial operators.

Vertol is systems manager for the Urban Mass Transportation Administration's urban rapid rail program, designed to apply the resources of modern technology to the problem of improving America's urban rapid transit systems. Two State-of-the-Art cars, the first project under this program, were rolled out in less than 12 months, an industry first. In October, the Secretary of Transportation unveiled the cars and formally dedicated the Department of Transportation test track in Pueblo, Colorado. Two cars, coupled back-to-back, were operated as a train. When testing is completed, demonstrations will be conducted in New York, Chicago, Cleveland, Boston and Philadelphia. The next phase of the program, designated ACT I (Advanced Concept Train), represents the next generation of rapid rail vehicles.

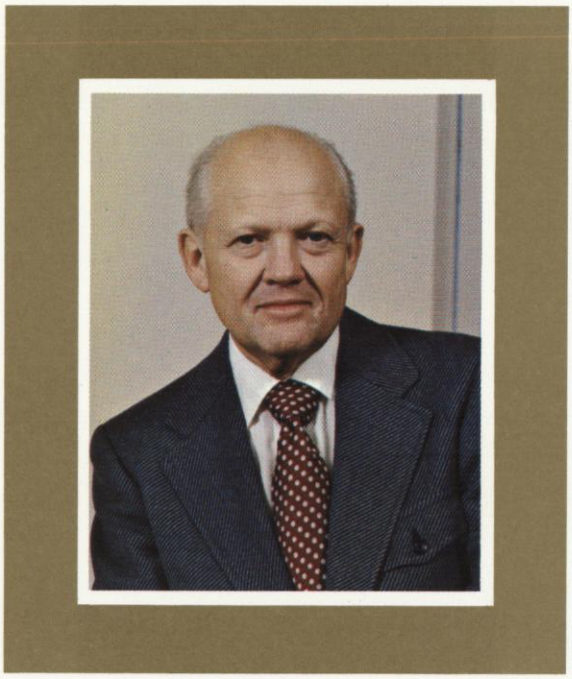
Company maintenance and spares programs are on schedule and the Department of Defense is planning significant modernization programs for both the Army Chinook (CH-47) and the Navy/Marine Sea Knight (UH/CH-46) helicopters for 1973.

Early in 1973 the company will respond to an Army request-for-proposal for an Advanced Attack Helicopter. The company's proposal will include the use of UTTAS technology.

■ A Heavy Lift Helicopter, in artist's conception, is carrying large fuel oil storage tank section, weighing 18 to 20 tons, to the construction site

■ BO-105 is a multi-purpose, two-engine helicopter with hingeless rotor system; its three operators in U.S. report high reliability, low maintenance

■ Company will build and test three prototypes of U.S. Army's Utility Tactical Transport Aircraft System. Shown here: design verification mockup



■ R. W. Tharrington
President
Boeing Computer Services, Inc.

BOEING COMPUTER SERVICES, INC.

Established as a subsidiary in December 1970, Boeing Computer Services (BCS) continues to fulfill the parent company's internal computing requirements while achieving its anticipated growth in the commercial computer services industry.

In 1972 BCS increased and diversified its commercial customer list, ending the year with more than 800 accounts. These include large and small industries and service organizations and all levels of government.

Two new organizations were established during the year to concentrate on specific markets: The Data Services District with headquarters in McLean, Virginia, and a new national consulting service division with headquarters in Seattle.

The new District, which brings the number of district offices to six, manages computers located in McLean and Wichita, Kansas, and provides, via telephone lines, interactive and remote-job-entry services throughout the country.

The new consulting service division combines consulting skills previously assigned to other portions of BCS to provide a wide spectrum of applications of modern management technology to business problems. The division includes professional expertise in operations research, management sciences, computer systems and computer installations, and has access to specialists in other fields in the parent company.

In 1972 BCS grew geographically as well. Sales and service offices totaled twenty-one with additions in Anchorage, Boston, Detroit, Fort Lauderdale and Greensboro.

Several new commercial services were introduced during 1972. The General Business System provides modular services to small and medium-sized companies at a cost and convenience superior to an in-house computer. Customers may select from such services as payroll, labor distribution, accounts payable, inventory, department and job cost, general ledger, accounts receivable and billing. The RE-ACT software package was also introduced, permitting customers with their own computers to obtain special reports quickly without preparing their own software programming.

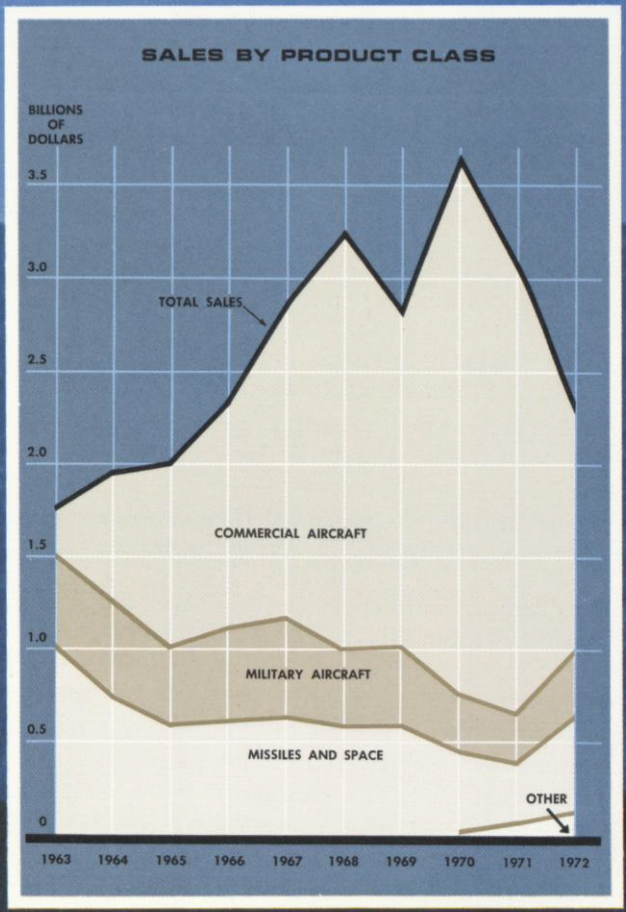
Initial sales were made in 1972 of the RAGS (route analysis, generation and simulation) System for improving the efficiency of municipal solid waste collection. Analysis has been made on the first city studied (Riverside, California) and shows potential savings to the city of about ten per cent. Several other cities have indicated their intent to adopt RAGS during 1973.

The gradual rise in The Boeing Company's business level has required additional BCS support. However, utilization of fewer, more powerful computers should continue to reduce computing costs as a percentage of total Boeing costs.

The combination of all these activities makes BCS one of the leaders in the dynamic computer services industry.

■ Working on a pilot program with the Washington State Library System in Olympia, BCS has produced a computerized resource directory which simplifies cataloging of newly purchased titles

FINANCIAL REVIEW



SALES *(in millions)*

	1972	*%*	*1971*	*%*
Commercial aircraft	$1,386	58.5	$2,332	76.7
Military aircraft	323	13.6	320	10.5
Missiles and space	571	24.1	353	11.6
Other	90	3.8	35	1.2
	$2,370	100.0	$3,040	100.0

Total sales of approximately $2.4 billion in 1972 were some $670 million below the 1971 level. The reduction of almost a billion dollars in commercial aircraft deliveries was partially offset by substantially increased missile and space sales and sales of non-traditional products and services. Military aircraft sales were relatively level.

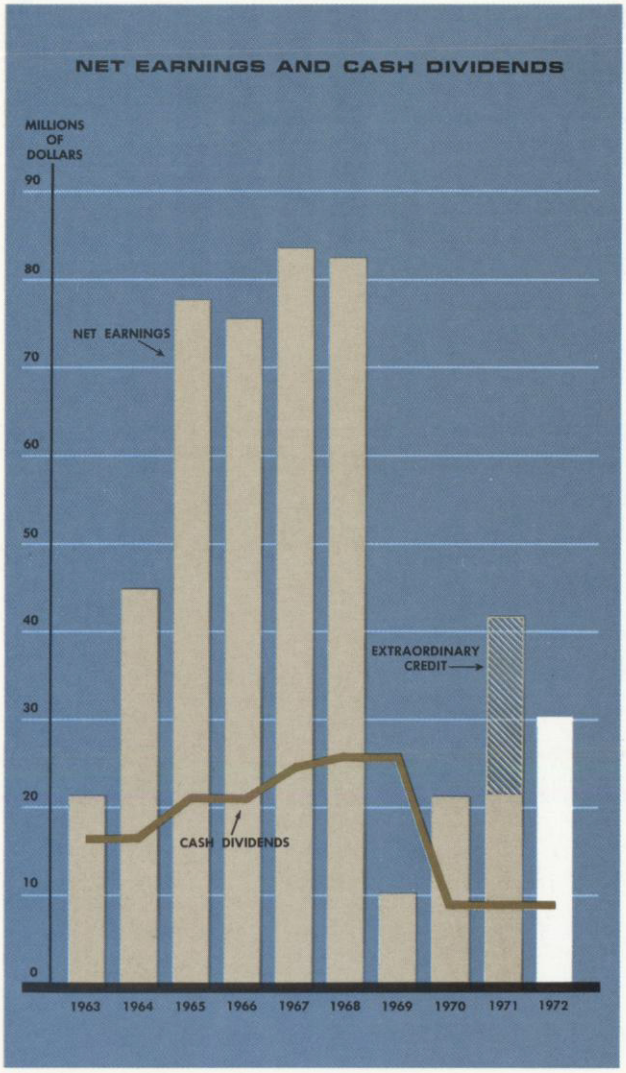
Six 707s, forty-one 727s, twenty-two 737s and thirty 747s were delivered in 1972 for a total of ninety-nine. This compares with one hundred forty-one deliveries in 1971, which included ten 707s, thirty-three 727s, twenty-nine 737s and sixty-nine 747s.

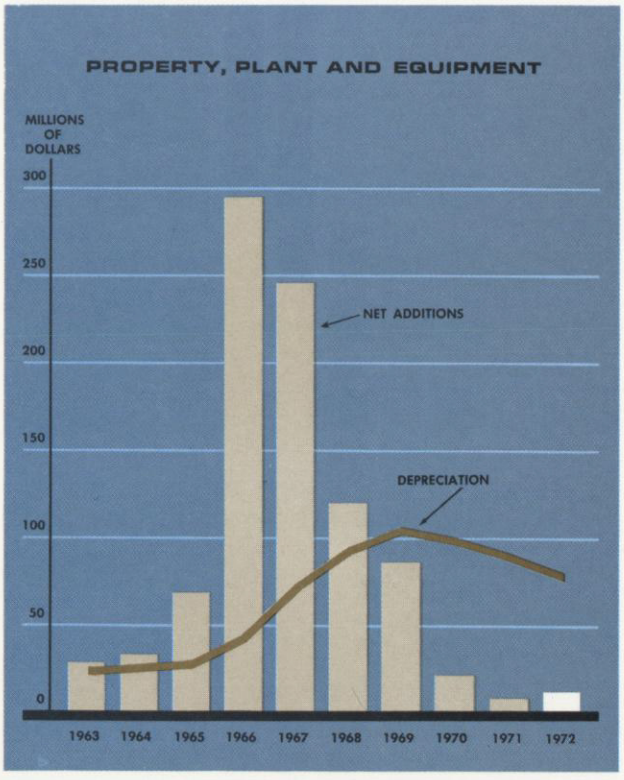
The sizeable increase in missile and space sales is largely attributable to SRAM as the program entered the production phase. Minuteman and Apollo/Saturn sales remained near 1971 levels, and initial sales were recorded under the SCAD and MVM '73 programs.

While still modest in relation to total company business, the proportionate increase in sales of non-traditional products is noteworthy. Major contributors to this increase included Boeing Computer Services, hydrofoils, field operations and support services, and surface transportation.

Sales in 1973 are expected to return to the 1971 level of approximately $3 billion, with the increase spread among all major product classes. Current 1973 schedules call for delivery of approximately eleven 707s, ninety-three 727s, twenty-two 737s and twenty-eight 747s. The total of 154 compares with 99 deliveries in 1972.

Military aircraft sales should increase significantly, reflecting higher levels of activity under the AWACS, B-1 Avionics, B-52/KC-135 modification and maintenance, Navigator Trainer, and Helicopter programs. Minuteman, SRAM and SCAD sales are expected to increase substantially, more than offsetting decreased sales under space programs.





EARNINGS *(in millions)*

	1972	*1971*
Before extraordinary credit	$30.4	$22.4
Extraordinary credit, net of tax	—	19.8
Net earnings	$30.4	$42.2
Per Share—		
Before extraordinary credit	$1.40	$1.04
Extraordinary credit	—	.91
Net earnings	$1.40	$1.95

Net earnings for 1972 were $30.4 million or 1.3 per cent of sales compared with 1971 earnings of $22.4 million or 0.7 per cent of sales before the extraordinary credit resulting from termination of the Supersonic Transport program. After inclusion of the extraordinary credit, net earnings for 1971 were $42.2 million or $1.95 per share.

Earnings before Federal income taxes were $24.8 million in 1972. This compares with 1971 earnings of $12.2 million before taxes and the extraordinary credit. The provision for Federal income taxes was reduced by $12.8 million in 1972 and $16.0 million in 1971 representing amortization of previously deferred investment tax credits. 1972 income taxes were further reduced by $4.7 million representing a portion of the taxes on earnings of the company's domestic international sales corporation.

With respect to the 747 commercial jet transport program, both incurred and estimated future production and tooling costs for aircraft delivery costing purposes are being averaged over what management believes to be a conservative market projection of 400 aircraft.

FINANCIAL POSITION

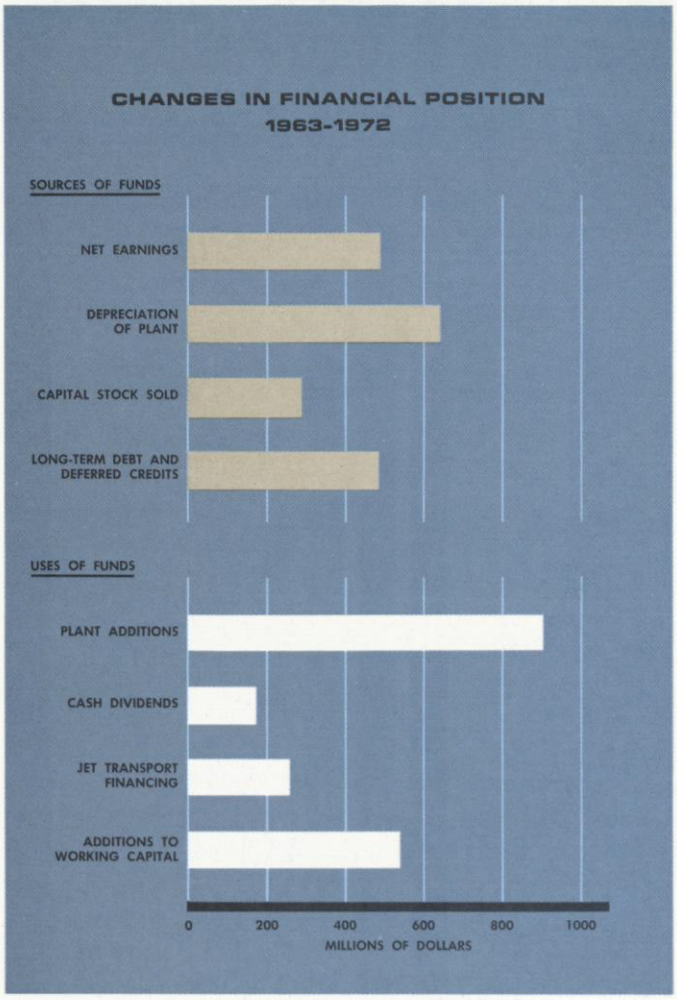
At December 31, 1972 stockholders' equity in the company totaled $865 million, up $22 million from the prior year. Working capital increased $44 million to $739 million. Jet transport financing, which includes long-term notes receivable from customer airlines and the depreciated book value of leased aircraft, totaled $277 million at the end of 1972, a decrease of $7 million during the year. Allowance for depreciation and net plant retirements substantially exceeded facility additions resulting in a decrease of $67 million in the company's net investment in plant and equipment to $382 million at year end.

Short-term bank loans totaled $107 million at December 31, 1972, down from $252 million at the end of 1971. Long-term debt at year end 1972 aggregated $645 million, composed of $199 million of long-term debentures and notes, and $446 million of long-term bank debt. Of the latter amount, $347 million represented debt of Boeing Financial Corporation related to financing of commercial jet aircraft sales and leases. Current maturities included in the above amounts were $142 million.

The company's commercial bank credit arrangements, after being modified during the year and early in 1973, are covered by two agreements. The $209 million Revolving Credit under which $99 million was outstanding at the end of 1972 was prepaid and terminated February 23, 1973.

The 1972 Bank Credit Agreement, under which the banks had made commitments to loan the company up to $409 million, was reduced to $300 million effective February 23, 1973. This agreement provides for the banks to continue the line of credit for a fifty-two week period, with the provision that unless either the company or the banks give notice otherwise, such commitment will be extended on a weekly basis for an additional fifty-two week period. The agreement further provides that if such extensions continue beyond January 1, 1976, the commitments will thereafter be reduced by 8⅓% per quarter with a final termination date of December 31, 1978. Borrowings under this agreement were $102 million at year end.

The remaining bank credit agreement covers borrowings by Boeing Financial Corporation, a wholly-owned subsidiary established to assist in financing commercial aircraft. The first part of the agreement is a participation under which the company has borrowed against the cash flow of certain aircraft leases with repayment requirements tied directly to the lease cash flows. Boeing Financial Corporation may repurchase the remaining cash flows at any time and must do so on January 15, 1975 if it has not done so earlier. $109 million was outstanding under the participation agreement at year end. As of February 23, 1973 the credit provided for in the second part of the agreement was reduced to $225 million from the $260 million level which had been established in September 1972. The loans under this second part of the agreement are governed by a borrowing base which is dependent on the assets owned by Boeing Financial Corporation exclusive of leased aircraft covered under the participation agreement. The balance outstanding at December 31, 1973 will be repayable in quarterly installments over a seven-year period thereafter. Borrowings under part two of this agreement were $238 million at year end.



BACKLOG *(in millions)*

	1972	*1971*
Commercial aircraft	$1,753	$1,479
Military aircraft	444	289
Missiles and space	596	407
Other	38	26
	$2,831	$2,201

All categories of unfilled order backlog increased during 1972, with the total at year end up approximately $630 million. For the first time since 1969, new orders for commercial jet aircraft exceeded the value of aircraft delivered.

Government order backlog is limited to amounts obligated to contracts by the procuring agencies. If recognition were given to unfunded amounts under contract at December 31, 1972, unfilled orders would be increased by about $500 million.

TEN YEAR COMPARATIVE FINANCIAL DATA

Dollars (other than per share amounts) in millions

SALES, EARNINGS AND DIVIDENDS

	SALES	EARNINGS				CASH DIVIDENDS	PER SHARE DATA			
		BEFORE EXTRAORDINARY ITEMS	% OF SALES	EXTRAORDINARY ITEMS	NET EARNINGS		EARNINGS BEFORE EXTRAORDINARY ITEMS	EXTRAORDINARY ITEMS	NET EARNINGS	CASH DIVIDENDS
1972	$2,370	$30.4	1.3	$ —	$30.4	$ 8.7	$1.40	$ —	$1.40	$ .40
1971	3,040	22.4	0.7	19.8*	42.2	8.7	1.04	.91	1.95	.40
1970	3,677	22.1	0.6	—	22.1	8.7	1.02	—	1.02	.40
1969	2,835	10.2	0.4	—	10.2	26.0	.47	—	.47	1.20
1968	3,274	83.0	2.5	—	83.0	26.0	3.84	—	3.84	1.20
1967	2,880	83.9	2.9	—	83.9	24.6	4.10	—	4.10	1.20
1966	2,357	76.1	3.2	—	76.1	20.2	4.13	—	4.13	1.10
1965	2,023	78.3	3.9	—	78.3	20.3	4.84	—	4.84	1.25
1964	1,969	45.3	2.3	—	45.3	16.0	2.82	—	2.82	1.00
1963	1,771	21.7	1.2	—	21.7	16.0	1.35	—	1.35	1.00

FINANCIAL POSITION DATA

	WORKING CAPITAL	LONG-TERM NOTES	LEASED AIRCRAFT	PLANT AND EQUIPMENT		LONG-TERM DEBT AND DEFERRED CREDITS	STOCKHOLDERS' EQUITY	
				AT COST	NET		AMOUNT	PER SHARE
1972	$739	$251	$ 26	$1,059	$382	$538	$865	$39.87
1971	695	248	36	1,077	449	589	843	38.88
1970	657	259	57	1,104	532	700	809	37.33
1969	610	228	71	1,106	609	726	796	36.71
1968	467	208	90	1,032	628	587	810	37.43
1967	358	249	114	915	601	574	752	34.80
1966	434	124	86	672	426	513	564	28.91
1965	266	20	14	380	172	104	372	22.70
1964	255	1	29	315	130	113	306	19.06
1963	245	9	17	285	121	117	276	17.24

All per share data for prior years adjusted to reflect two-for-one stock split in 1966.
Earnings per share based on the average number of shares outstanding during each year.

*Recovery of cost share resulting from SST cancellation, net of Federal income taxes.

PRINCIPAL SOURCES AND USES OF FUNDS

SOURCES				USES				
NET EARNINGS	DEPRECIATION OF PLANT	CAPITAL STOCK SOLD	LONG-TERM DEBT AND DEFERRED CREDITS	CASH DIVIDENDS	NET ADDITIONS TO PLANT	INCREASED AIRCRAFT FINANCING	INCREASED WORKING CAPITAL	
$30.4	$ 75.9	$ 0.1	$ (51.2)	$ 8.7	$ 9.4	$ (6.7)	$ 43.7	1972
42.2	89.6	—	(110.8)	8.7	6.4	(32.3)	38.2	1971
22.1	98.4	—	(26.6)	8.7	21.3	17.7	46.2	1970
10.2	105.3	1.4	139.7	26.0	86.9	0.6	143.5	1969
83.0	93.8	1.8	12.2	26.0	120.2	(65.2)	108.7	1968
83.9	72.3	128.6	62.3	24.6	246.5	153.0	(76.0)	1967
76.1	40.2	135.9	408.4	20.2	294.6	176.2	167.5	1966
78.3	25.5	7.3	(8.7)	20.3	67.8	3.7	11.3	1965
45.3	24.7	0.8	(4.1)	16.0	33.6	4.5	9.6	1964
21.7	21.6	0.7	51.3	16.0	28.2	3.1	48.2	1963

GENERAL INFORMATION

SHARES OUTSTANDING	BACKLOG	FLOOR AREA (In Million Square Feet)			EMPLOYEES		
		BOEING OWNED	LEASED	GOV'T OWNED	AVERAGE NUMBER	SALARIES AND WAGES	
21,688,888	$2,831	24.2	1.6	7.4	58,600	$ 784	1972
21,683,102	2,201	24.6	1.6	7.9	56,300	711	1971
21,683,102	3,033	25.0	2.3	8.0	79,100	943	1970
21,683,102	5,183	25.1	3.8	10.4	120,500	1,322	1969
21,647,363	5,176	24.7	4.1	10.7	142,400	1,411	1968
21,597,356	5,893	22.9	4.3	10.7	142,700	1,305	1967
19,496,519	5,283	19.9	3.6	10.6	128,500	1,148	1966
16,374,280	3,148	12.5	2.5	11.4	93,400	813	1965
16,073,972	1,844	11.3	2.1	11.2	90,900	758	1964
16,025,136	1,815	11.1	2.0	11.2	100,400	803	1963

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31, 1972	December 31, 1971
CURRENT ASSETS:		
Cash	$ 50,952,000	$ 88,261,000
Amounts receivable under United States Government contracts	127,733,000	111,426,000
Refundable taxes on income – Note 3		2,256,000
Other accounts and notes receivable – Note 4	144,523,000	148,615,000
Inventories – Note 2	1,133,347,000	1,370,320,000
Prepaid expenses	6,821,000	6,409,000
Total Current Assets	1,463,376,000	1,727,287,000
LONG-TERM NOTES RECEIVABLE — Note 4	251,273,000	247,815,000
LEASED AIRCRAFT, less accumulated depreciation: 1972, $91,021,000; 1971, $86,634,000 – Note 4	25,962,000	36,124,000
OTHER ASSETS AND DEFERRED CHARGES	4,381,000	4,254,000
PROPERTY, PLANT AND EQUIPMENT:		
Land	26,115,000	26,563,000
Buildings	508,372,000	516,035,000
Machinery and equipment	521,638,000	532,516,000
Construction in progress	3,120,000	2,144,000
Less accumulated depreciation and amortization	(676,841,000)	(628,314,000)
	382,404,000	448,944,000
	$2,127,396,000	$2,464,424,000

See notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1972	December 31, 1971
CURRENT LIABILITIES:		
Notes payable to banks – Note 4	$ 107,050,000	$ 251,695,000
Accounts payable	325,268,000	526,828,000
Salaries and wages, taxes and other accrued expenses	148,804,000	130,176,000
Federal taxes on income – Note 3	1,230,000	
Current portion of long-term debt	142,487,000	123,797,000
Total Current Liabilities	724,839,000	1,032,496,000
DEFERRED TAXES ON INCOME – Note 3	2,000,000	17,000,000
DEFERRED INVESTMENT CREDIT – Note 3	33,100,000	44,400,000
LONG-TERM DEBT, less current portion – Note 4	502,638,000	527,558,000
STOCKHOLDERS' EQUITY:		
Capital stock, par value $5 a share– Authorized 30,000,000 shares Issued and outstanding at stated value: 1972, 21,688,888 shares; 1971, 21,683,102 shares – Note 6	447,158,000	447,040,000
Retained earnings – Note 4	417,661,000	395,930,000
	864,819,000	842,970,000
	$2,127,396,000	$2,464,424,000

CONSOLIDATED STATEMENT OF NET EARNINGS AND RETAINED EARNINGS

	Year ended December 31, 1972	Year ended December 31, 1971
Sales	$2,369,580,000	$3,039,816,000
Other income	39,467,000	43,215,000
	2,409,047,000	3,083,031,000
Costs and expenses – Note 5	2,327,813,000	3,014,356,000
Interest and debt expense	56,429,000	56,503,000
	2,384,242,000	3,070,859,000
EARNINGS BEFORE TAXES AND EXTRAORDINARY CREDIT	24,805,000	12,172,000
Federal taxes on income (tax credits) – Note 3	(5,600,000)	(10,258,000)
EARNINGS BEFORE EXTRAORDINARY CREDIT	30,405,000	22,430,000
Recovery of cost share resulting from SST cancellation, net of Federal income taxes of $18,258,000		19,780,000
NET EARNINGS	30,405,000	42,210,000
Retained earnings, January 1	395,930,000	362,393,000
Cash dividends paid – $.40 per share	(8,674,000)	(8,673,000)
Retained earnings, December 31	$ 417,661,000	$ 395,930,000
Earnings per share–		
Before extraordinary credit	$1.40	$1.04
Extraordinary credit		.91
Net earnings	$1.40	$1.95

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31, 1972	1971
SOURCE OF FUNDS:		
From operations–		
Earnings before extraordinary credit	$ 30,405,000	$ 22,430,000
Recovery of cost share resulting from SST cancellation, net of taxes		19,780,000
Net earnings	30,405,000	42,210,000
Depreciation–		
Plant and equipment	75,920,000	89,609,000
Leased aircraft	9,091,000	12,246,000
Less amortization of investment credit	(12,800,000)	(16,000,000)
	102,616,000	128,065,000
USES OF FUNDS:		
Decrease in long-term debt	24,920,000	96,198,000
Decrease (increase) in deferred credits	13,500,000	(1,400,000)
Additions to plant and equipment, net	9,380,000	6,370,000
Cash dividends	8,674,000	8,673,000
Increase (decrease) in aircraft financing–		
Long-term notes receivable	3,458,000	(11,098,000)
Leased aircraft	(1,071,000)	(8,919,000)
Other	9,000	68,000
	58,870,000	89,892,000
NET INCREASE IN WORKING CAPITAL	$ 43,746,000	$ 38,173,000
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Cash	$(37,309,000)	$ 24,996,000
Receivables	9,959,000	53,782,000
Inventories	(236,973,000)	(120,244,000)
Prepaid expenses	412,000	(495,000)
Notes payable to banks	144,645,000	(136,745,000)
Accounts payable	201,560,000	233,037,000
Salaries and wages, taxes and other accrued expenses	(19,858,000)	4,062,000
Current portion of long-term debt	(18,690,000)	(20,220,000)
NET INCREASE IN WORKING CAPITAL	$ 43,746,000	$ 38,173,000

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Two Years Ended December 31, 1972

Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of consolidation. The consolidated financial statements include the accounts of all significant subsidiaries. Intercompany profits, transactions and balances have been eliminated in consolidation.

Inventories, cost of sales and research and developmental expenses. Work in process on Government fixed-price incentive type contracts is stated at the total of direct engineering, developmental, production and tooling costs and overhead applicable thereto, less the estimated average cost of deliveries based on the estimated total cost of the contracts. Work in process on straight fixed-price contracts and commercial programs is stated in the same manner, except that applicable research, developmental, administrative and other general expenses are charged directly to earnings as incurred. Basic engineering and planning costs applicable to commercial jet transport programs are also charged directly to earnings. The average cost of deliveries on commercial programs is based upon the total estimated program costs determined in the above manner. To the extent such costs are expected to exceed the total estimated program sales price, charges are made to current earnings in order to reduce work in process to estimated realizable value.

In accordance with industry practice, substantial amounts relating to programs having long production cycles are included in work in process, a portion of which is not expected to be realized within one year.

Commercial spare parts and general stock materials are stated at average cost not in excess of realizable value.

Revenue recognition. Sales under commercial programs and Government fixed-price and fixed-price incentive contracts are recorded as deliveries are made. Sales under cost-reimbursement type contracts are recorded as costs are incurred. Certain Government contracts contain cost or performance incentives which provide for increased or decreased fees or profits based upon actual performance against established targets or other criteria. Incentives based upon cost performance are recorded currently. Other incentives are included in sales when awards or penalties are established, or when amounts can reasonably be determined.

Aircraft leases are accounted for under the operating method, by which lease payments are taken into income as accrued.

Depreciation and amortization. Property, plant and equipment and leased aircraft are recorded at cost and depreciated or amortized over useful lives based principally on accelerated methods.

Retirement plans. The Company has several retirement plans covering substantially all employees. The Company's policy is to accrue current pension costs. Unfunded liability arising from a retroactive increase in retirement benefits adopted in 1972 is being amortized over 25 years.

Federal income taxes. The provision for Federal income taxes is based on all elements of income and expense included in the statement of net earnings, regardless of the period when such items are reported for tax purposes, except that no provision is made for that portion of the earnings of the Company's Domestic International Sales Corporation for which management believes tax payments will be indefinitely deferred. The effect of timing differences for installment sales, product warranty expenses and other items between their recording for earnings statement purposes and Federal income tax reporting are reflected as changes in deferred taxes on income. Investment tax credits have been deferred and are being recorded as reductions in the provision for income taxes over the lives of the applicable assets.

Note 2—INVENTORIES:

Inventories at December 31 include the following:

	1972	1971
Work in process	$1,690,296,000	$1,828,612,000
Commercial spare parts and general stock	63,086,000	61,921,000
	1,753,382,000	1,890,533,000
Less advances and progress payments	620,035,000	520,213,000
	$1,133,347,000	$1,370,320,000

Note 3—FEDERAL INCOME TAXES:

The provision for Federal taxes on income (tax credits) is composed of:

	1972	1971
Taxes currently payable	$ 10,000,000	$ 8,500,000
Tax effect of timing differences	(2,800,000)	15,500,000
	7,200,000	24,000,000
Amortization of investment tax credit	(12,800,000)	(16,000,000)
	(5,600,000)	8,000,000
Taxes applicable to extraordinary item		(18,258,000)
	$ (5,600,000)	$(10,258,000)

The provision for Federal income tax for 1972 has been reduced by $4,700,000 ($.22 a share) representing taxes on approximately $9,800,000 in earnings of the Company's Domestic International Sales subsidiary, since management has declared its intention to indefinitely postpone payment of such taxes through the reinvestment of the undistributed earnings.

Income taxes have been settled with the Internal Revenue Service for all years through 1970. Adequate provision for income taxes is believed to have been made for the years 1971 and 1972.

Note 4—NOTES PAYABLE AND LONG-TERM DEBT:

Short-term notes payable aggregating $107,050,000 at December 31, 1972 are payable to a group of banks under agreements aggregating $414,000,000. As of February 23, 1973 these lines of credit were reduced to $304,000,000. The notes now bear interest at ¼% above the prime commercial bank rate. In addition, commitment fees of ½% are charged for the unused portion of the credit lines.

Long-term debt consists of the following:

	December 31,	
	1972	1971
Revolving Credit notes	$ 99,275,000	$161,975,000
Term Loan and Credit Agreement	346,748,000	274,881,000
6⅜% notes payable	153,500,000	164,250,000
5% notes payable	30,750,000	33,500,000
5% Sinking Fund Debentures	12,964,000	13,614,000
Other notes	1,888,000	3,135,000
Less current maturities	(142,487,000)	(123,797,000)
	$502,638,000	$527,558,000

The Revolving Credit Agreement with a group of banks was terminated and the outstanding balance prepaid without penalty on February 23, 1973.

Boeing Financial Corporation, a wholly-owned subsidiary, is a party to a Term Loan and Credit Agreement with a group of banks. The collateral for the balance outstanding at December 31, 1972 is limited to $278,011,000 of notes receivable and $24,804,000 of leased aircraft included in the consolidated balance sheet. Of the outstanding balance at December 31, 1972, $13,000,000 was prepaid on February 23, 1973. $225,000,000 of the remaining balance is governed by a borrowing base under a revolving credit arrangement until December 31, 1973 at which time the outstanding balance will be payable in quarterly installments including interest over a seven-year period unless the revolving period is extended under the provisions of the agreement. The remaining $108,748,000 is payable in monthly installments of $1,069,000 plus interest through January 15, 1975 at which date the remaining balance becomes due. The loans bear interest at 120% of the prime commercial bank rate.

The 6⅜% notes, maturing in 1986, are payable to a group of institutional lenders. Required annual sinking fund payments are $10,750,000.

The 5% notes, maturing in 1983, are payable to an insurance company in annual installments of $2,750,000.

Sinking fund requirements under the 5% Sinking Fund Debentures, due August 1, 1978, are $2,700,000 annually. Debentures aggregating $36,000 have been reacquired and may be applied against future sinking fund requirements.

The other notes bear interest at 6% to 8%, and are payable in installments over various periods through 1977.

The Company has complied with all of the restrictive covenants contained in the various debt agreements. Under agreements effective February 15, 1973, retained earnings totaling $44,259,000 are free from dividend restrictions.

Aggregate maturities and sinking fund requirements on long-term debt for each of the next five years are as follows:

1973	$142,487,000
1974	29,357,000
1975	99,399,000
1976	16,303,000
1977	15,803,000

Note 5 – OPERATING CHARGES:

The following charges were incurred in the years ended December 31:

	1972	*1971*
Depreciation and amortization of plant and equipment	$75,920,000	$89,609,000
Depreciation of leased aircraft	9,091,000	12,246,000
Retirement plans	41,046,000	23,081,000

At December 31, 1972, actuarially determined vested benefits exceeded retirement plan assets by approximately $90,000,000.

Note 6 – CAPITAL STOCK:

There were no changes in capital stock during the year ended December 31, 1971. Changes in capital stock during 1972 were as follows:

	Shares	*Amount*
Balance at January 1	21,683,102	$447,040,000
Shares sold to officers and employees under stock option plan	5,786	118,000
Balance at December 31	21,688,888	$447,158,000

At December 31, 1972, options for 383,350 shares of the Company's stock, at prices ranging from $14.50 to $71.00 were outstanding, of which 122,075 shares were exercisable. During 1972, options for 181,200 shares were granted and options for 11,641 shares were canceled. Additional options for 306,150 shares may be granted under the present stock option plan.

Note 7 – CONTINGENT LIABILITIES:

Substantially all of the Company's contracts with the Government are subject to renegotiation under the Renegotiation Act of 1951. Renegotiation Board proceedings for all years through 1969 have been concluded. The Company does not know and cannot predict what the Board's actions will be for 1970 and subsequent years. In view of this uncertainty, and the belief of the Company that no excessive profits were realized, no provision for renegotiation refund has been made for these years.

The Company is engaged in various legal proceedings which in some instances involve claims for substantial amounts. Most of these claims are covered by insurance, and the Company does not anticipate that the amounts, if any, which may be required to be paid by the Company will be material.

ACCOUNTANTS' REPORT

TOUCHE ROSS & CO.

1212 IBM BUILDING
SEATTLE, WASHINGTON 98101

Board of Directors
The Boeing Company
Seattle, Washington

February 26, 1973

We have examined the accompanying consolidated balance sheet of The Boeing Company and subsidiaries as of December 31, 1972 and 1971, and the related statements of net earnings and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of The Boeing Company and subsidiaries at December 31, 1972 and 1971, and the results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Also, in our opinion, the action of the Board of Directors on February 26, 1973, in setting aside the sum of $1,300,000 for the year 1972 under the Incentive Compensation Plan for officers and employees, is in conformity with the provisions contained in the first paragraph of Section 2 of such plan.

Touche Ross & Co.

Certified Public Accountants

THE BOEING COMPANY
Corporate Offices (Seattle, Washington)

T. A. Wilson	*Chairman of the Board (Chief Executive Officer)*
M. T. Stamper	*President*
H. W. Haynes	*Senior Vice President - Finance*
J. E. Prince	*Senior Vice President and Secretary*
R. E. Bateman	*Vice President - Washington, D.C. Office*
H. K. Hebeler	*Vice President - Corporate Business Development*
V. F. Knutzen	*Controller*
S. M. Little	*Vice President - Industrial and Public Relations*
H. W. Neffner	*Vice President - Contracts*
J. B. L. Pierce	*Treasurer*
B. M. Wheat	*Vice President - Operations Staff*

BOEING AEROSPACE COMPANY
Kent, Washington

O. C. Boileau	*President*
D. A. Cole	*Vice President, General Manager - Operations and Planning*
D. E. Graves	*Vice President, Manager - Aeronautical and Information Systems Division*
G. H. Hage	*Vice President, Assistant General Manager - Space and Ballistic Missiles Group*
H. E. Hurst	*Vice President, Prototype Airplane Operations - Aeronautical and Information Systems Division*
R. H. Jewett	*Vice President, Special Assignments*
J. C. Maxwell	*Vice President, Assistant General Manager - Military Systems Group*
M. L. Pennell	*Vice President, Manager - Advanced Military STOL Transport Program*
B. T. Plymale	*Vice President, General Manager - Space and Ballistic Missiles Group*
G. S. Schairer	*Vice President, Deputy Manager - Requirements and Market Analysis*
R. W. Taylor	*Vice President, General Manager - Military Systems Group*

BOEING COMMERCIAL AIRPLANE COMPANY
Renton, Washington

E. H. Boullioun	*President*
W. M. Maulden	*Executive Vice President*
W. W. Buckley	*Vice President, General Manager - 707/727/737 Division*
W. L. Hamilton	*Vice President, Requirements and Marketing*
K. F. Holtby	*Vice President, General Manager - 7X7 Program*
G. D. Nible	*Vice President, Customer Support*
E. A. Ochel	*Vice President, General Manager - Fabrication and Services Division*
J. E. Steiner	*Vice President, Program Operations*
J. F. Sutter	*Vice President, General Manager - 747 Division*
R. W. Welch	*Vice President, Finance and Contracts*
C. F. Wilde	*Vice President, Sales*
H. W. Withington	*Vice President, Engineering*

BOEING VERTOL COMPANY
Philadelphia, Pennsylvania

H. N. Stuverude	*President*
C. W. Ellis	*Vice President, Assistant General Manager*

WICHITA DIVISION
Wichita, Kansas

O. H. Smith	*Vice President, General Manager*

SEATTLE SERVICES DIVISION
Seattle, Washington

B. W. Lamb	*General Manager*

FIELD OPERATIONS AND SUPPORT DIVISION
Seattle, Washington

C. R. McGehee	*General Manager*

BOEING COMPUTER SERVICES, INC. (Subsidiary)
Dover, New Jersey and Kent, Washington

T. A. Wilson	*Chairman of the Board*
R. W. Tharrington	*President (Chief Executive Officer)*
J. H. Goldie	*Executive Vice President*
B. Harty	*Vice President and Secretary*
D. W. Judy	*Vice President - Systems Development*
R. E. Platt	*Vice President - Marketing*
A. W. Sauerbrey	*Vice President - Finance, Treasurer*
M. E. Stone	*Vice President - Operations*

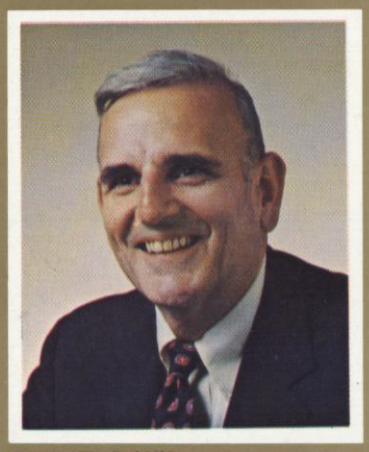
The Company has nine additional wholly owned subsidiaries.

GENERAL COUNSEL	PERKINS, COIE, STONE, OLSEN & WILLIAMS
GENERAL AUDITORS	TOUCHE ROSS & CO.
TRANSFER AGENT	FIRST NATIONAL CITY BANK, NEW YORK
REGISTRAR	BANKERS TRUST COMPANY, NEW YORK

THE BOEING COMPANY

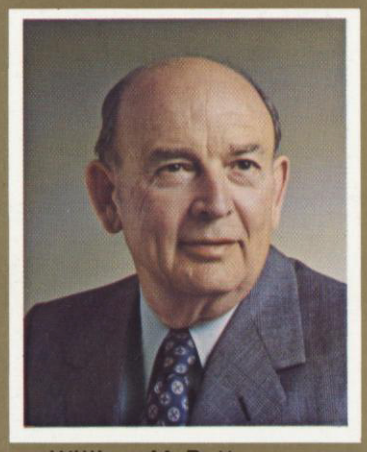
GENERAL OFFICES — 7755 EAST MARGINAL WAY SOUTH — SEATTLE, WASHINGTON 98124

DIRECTORS OF THE BOEING COMPANY

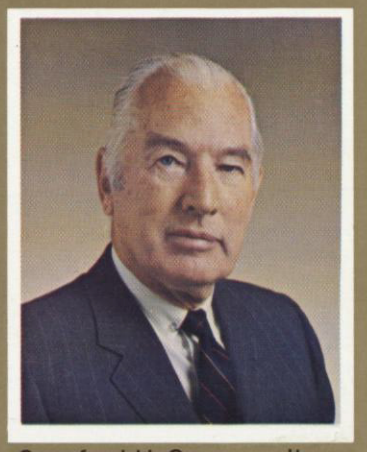


T. A. Wilson
Chairman of the Board
Chief Executive Officer

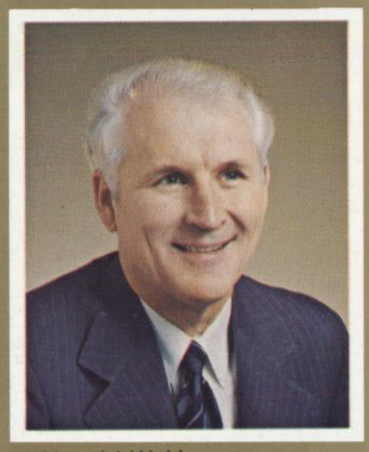
Malcolm T. Stamper
President



William M. Batten
Chairman of the Board,
J. C. Penney Company, Inc.

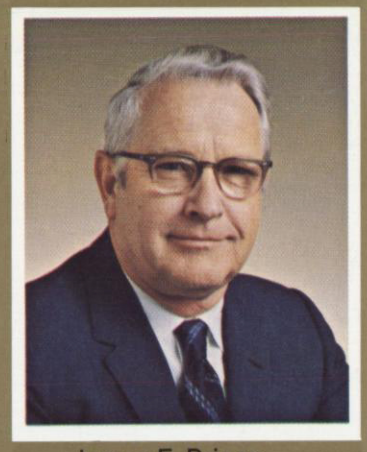


Crawford H. Greenewalt
Chairman of Finance Committee,
E. I. duPont de Nemours & Co.



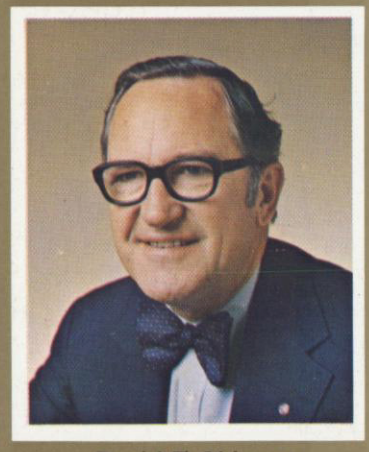
Harold W. Haynes
Senior Vice President - Finance

Charles M. Pigott
President,
PACCAR Inc



James E. Prince
Senior Vice President
and Secretary

William G. Reed
Managing Partner,
Simpson Reed & Co.



David E. Skinner
President,
Skinner Corporation

Edward C. Wells
Boeing Company Consultant

George H. Weyerhaeuser
President,
Weyerhaeuser Company

Thomas R. Wilcox
Vice Chairman,
Blyth Eastman
Dillon & Co., Inc.

Directors Emeriti:

William M. Allen
(Chairman Emeritus)
Willis L. Campbell
Artemus L. Gates
Lowell P. Mickelwait


BOEING 747

THE BOEING COMPANY

FIRST NATIONAL CITY BANK, TRANSFER AGENT
SECURITYHOLDER RELATIONS UNIT
P. O. BOX 960 • WALL STREET STATION
NEW YORK, N. Y. 10005

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